



FEDERAL RESERVE SYSTEM

Docket No. R-1503

Application of Enhanced Prudential Standards and Reporting Requirements to General Electric Capital Corporation

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final order applying enhanced prudential standards and reporting requirements to General Electric Capital Corporation.

SUMMARY: General Electric Capital Corporation (GECC) is a nonbank financial company that the Financial Stability Oversight Council (Council) has designated under section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) for supervision by the Board of Governors of the Federal Reserve System (Board). Section 165 of the Dodd-Frank Act provides that the Board must, as part of its supervision of a nonbank financial firm designated by the Council, adopt enhanced prudential standards for the firm that help prevent or mitigate risks to the financial stability of the United States that could arise from the material financial distress or failure of the firm. This final order establishes these enhanced prudential standards for GECC. In light of the substantial similarity of GECC's activities and risk profile to that of a similarly sized bank holding company, the enhanced prudential standards adopted by the Board are similar to those that apply to large bank holding companies, including capital requirements; capital-planning and stress-testing requirements; liquidity requirements; risk-management and risk-committee requirements; and reporting requirements. The

Board has tailored these standards to reflect GECC's risk profile and its ongoing plan to divest certain assets and business lines and reorganize its operations. The Board has also deferred application of the enhanced capital, liquidity, governance, and reporting provisions until January 1, 2018.

DATES: The final order is effective in two phases. Phase I Requirements, as described more fully below, are effective on January 1, 2016. Phase II Requirements, as described more fully below, are effective on January 1, 2018, unless otherwise noted.

FOR FURTHER INFORMATION CONTACT: Ann Misback, Associate Director, (202) 452-3799, Jyoti Kohli, Senior Supervisory Financial Analyst, (202) 452-2539, or Elizabeth MacDonald, Senior Supervisory Financial Analyst, (202) 475-6316, Division of Banking Supervision and Regulation; or Laurie Schaffer, Associate General Counsel, (202) 452-2277, Tate Wilson, Counsel, (202) 452-3696, or Dan Hickman, Attorney, (202) 973-7432, Legal Division.

SUPPLEMENTARY INFORMATION:

Table of Contents

I. Introduction

II. Framework for Supervision of GECC and Enhanced Prudential Standards

A. Phase I Requirements

1. Capital Requirements

2. Liquidity Requirements

B. Phase II Requirements

1. Risk-Management and Risk Committee Requirements

2. Capital Requirements – Additional Risk-Based and Leverage Capital Requirements
3. Capital Planning Requirements – Capital Plan Rule
4. Stress Testing Requirements
5. Liquidity Requirements
6. Other Prudential Standards: Restrictions on Intercompany Transactions
7. Future Standards

C. Reporting Requirements

1. Phase I Requirements
2. Phase II Requirements

III. Paperwork Reduction Act

IV. Final Order

I. Introduction

General Electric Capital Corporation (GECC) is a major financial company with approximately \$482 billion in total assets as of March 31, 2015, approximately 55 percent of which are in the United States. It provides a wide variety of credit and other financial products to consumers and businesses in the United States and overseas. These include commercial loans and leases, equipment financing, consumer mortgages, various types of consumer loans, commercial real estate financing, auto loans, credit cards, private mortgage insurance, and other financial services. GECC also operates two large insured depository institutions, Synchrony Bank and GE Capital Bank, with combined total assets

of approximately \$74 billion as of March 31, 2015. In addition to the funding obtained by these insured depository institutions through collection of deposits, GECC is a large issuer of commercial paper, with approximately \$25 billion outstanding as of March 31, 2015. GECC is wholly owned by General Electric Company (GE).

After reviewing the activities, structure, size, scope, and risks of GECC's operations and activities, the Financial Stability Oversight Council (Council) determined that GECC should be subject to supervision by the Board in order to help mitigate the risks that the failure of GECC might pose to financial stability in the United States. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) provides the Board with the authority to examine GECC, including its operations, activities and risk management, and to take a variety of supervisory actions to protect the financial stability of the United States. As a result of this designation, the Federal Reserve has already initiated a program to examine and supervise the operations, activities, and risk management of GECC. In addition, because GECC has for some time controlled and currently continues to control a savings association, GECC is a savings and loan holding company subject to examination, supervision, and other regulatory requirements under the Home Owners' Loan Act, as amended.¹

In addition to these supervisory and regulatory requirements, section 165 of the Dodd-Frank Act directs the Board to establish enhanced prudential standards for nonbank financial companies that the Council has determined should be supervised by the Board (as well as for certain bank holding companies) in order to prevent or mitigate risks to U.S. financial stability that could arise from the material financial distress or failure, or

¹ 12 U.S.C. § 1461, *et. seq.*

ongoing activities of, these companies.² By statute, the enhanced prudential standards must include risk-based and leverage capital requirements, liquidity requirements, risk-management and risk-committee requirements, resolution-planning requirements, single-counterparty credit limits, stress-test requirements, and a debt-to-equity limit under certain circumstances.³ Section 165 also permits the Board to establish additional enhanced prudential standards, including a contingent capital requirement, an enhanced public disclosure requirement, a short-term debt limit, and any other prudential standards that the Board determines are appropriate.⁴

In prescribing enhanced prudential standards, section 165(a)(2) of the Dodd-Frank Act permits the Board to tailor the enhanced prudential standards among companies on an individual basis, taking into consideration their “capital structure, riskiness, complexity, financial activities (including the financial activities of their subsidiaries), size, and any other risk-related factors that the Board of Governors deems appropriate.”⁵ In addition, under section 165(b)(3) of the Dodd-Frank Act, the Board is required to take into account differences among bank holding companies covered by section 165 and nonbank financial companies supervised by the Board.⁶

The Board has issued by rule an integrated set of enhanced prudential standards for large bank holding companies and foreign banking organizations. These enhanced

² 12 U.S.C. § 5365.

³ 12 U.S.C. §§ 5365(b)(1)(A), (e), and (i). The debt-to-equity limit applies if the Council also determines the firm poses a grave threat to the financial stability of the United States, a finding the Council has not made in the case of GECC. See 12 U.S.C. § 5365(j).

⁴ 12 U.S.C. § 5365(b)(1)(B).

⁵ 12 U.S.C. § 5365(a)(2).

⁶ 12 U.S.C. § 5365(b)(3).

prudential standards include a capital planning rule,⁷ a stress testing rule,⁸ a resolution plan rule,⁹ and enhanced liquidity requirements.¹⁰ The Board also adopted an enhanced supplementary leverage ratio for the largest, most complex bank holding companies and has proposed a risk-based capital surcharge framework for U.S. global systemically-important banks (G-SIBs).¹¹ This integrated set of standards is designed to enhance the resiliency of these companies and mitigate the risk that their failure or material financial distress could pose to U.S. financial stability. The Board may issue additional standards through rulemakings in the future.

In considering the application of enhanced prudential standards to nonbank financial companies supervised by the Board, the Board has stated that it intends to take account of the business model, capital structure, risk profile, and systemic footprint of a designated company.¹² Consistent with this approach, in November 2014, the Board proposed a number of enhanced prudential standards for GECC.¹³

In light of the substantial similarity of GECC's current activities and risk profile to that of a similarly sized bank holding company, the Board proposed to apply enhanced

⁷ 12 CFR 225.8.

⁸ 12 CFR part 252.

⁹ 12 CFR part 243. The Board's resolution plan rule applies by its terms to all nonbank financial companies supervised by the Board, including GECC. See 12 CFR 243.1(b), .2(f)(1)(i).

¹⁰ See 12 CFR part 249; see also 79 FR 17240, 17252 (March 27, 2014).

¹¹ See 79 FR 24528 (May 1, 2014); 79 FR 75473 (December 18, 2014).

¹² See Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking organizations, 79 FR 17240, 17245 (March 27, 2014).

¹³ Application of Enhanced Prudential Standards and Reporting Requirements to General Electric Capital Corporation, 79 FR 71768 (December 3, 2014) (Proposed Order).

prudential standards to GECC that are similar to those that apply to large bank holding companies. Specifically, the Board proposed to apply: (1) capital requirements; (2) capital-planning and stress-testing requirements; (3) liquidity requirements; and (4) risk-management and risk-committee requirements. The Board also proposed certain additional enhanced prudential standards for GECC in light of the unique aspects of GECC's activities, risk profile, and structure. These included certain independence requirements for GECC's board of directors and restrictions on intercompany transactions between GECC and its parent, GE, and certain affiliates. In addition, the Board proposed to require GECC to file certain reports with the Board that are similar to the reports required of bank holding companies. GECC was separately required by rule to submit a resolution plan.¹⁴

The Board invited comment on this proposal from the public.¹⁵ The Board received 21 comments on the proposed order including comments from certain of GE's directors, GECC, other companies, industry associations, and individuals. Several commenters supported application of the proposed enhanced prudential standards to GECC, and asserted that it was appropriate to require GECC to comply with standards similar to those applicable to bank holding companies. In its comments, GECC recognized the importance of the Federal Reserve's supervision in ensuring the safety and soundness of the U.S. financial system, and the purpose of enhanced prudential standards generally for a large, interconnected, and complicated financial firm such as the current GECC.

¹⁴ 12 CFR 243.3(a).

¹⁵ Proposed Order, 79 FR at 71769.

Some commenters, including GECC, asserted however that the proposed standards were not sufficiently tailored to GECC. For example, GECC and a financial services trade association suggested that standards for G-SIBs should not be applied to GECC because they believed GECC's business model, capital structure, risk profile, and systemic footprint were unlike those of the U.S. G-SIBs. Several commenters, including GECC, investment advisers, and corporate governance associations also criticized the corporate governance standards in the proposed order, arguing that they were inconsistent with Delaware law and inappropriate for GECC. In addition, GECC and financial services trade associations requested that GECC be granted additional time for compliance with the standards and the reporting requirements set forth in the proposed order in order to help GECC address operational and technological challenges associated with compliance. Some commenters, including trade associations for insurance companies, argued that it was inappropriate to issue an order for a specific nonbank financial company.¹⁶ These commenters also expressed concern that the Board might apply similar standards to nonbank financial companies with predominantly insurance activities. A detailed discussion of the comments on particular aspects of the proposal is provided below.

¹⁶ Some commenters, in particular trade associations for insurance companies, asserted that, while they did not have any particular view on GECC's structure or the appropriateness of bank holding company standards for GECC, the Board should develop standards for insurance companies that are specific to the insurance industry, and should propose those standards through a public rulemaking process. The Board followed a public comment process in proposing and adopting enhanced prudential standards for GECC. The Board expects to follow a public comment process when proposing and establishing enhanced prudential standards for other companies designated by the Council, and will determine the appropriate process and appropriate enhanced prudential standards based on each case.

In April 2015, after the Board invited comment on its proposed order regarding GECC, GE and GECC announced plans to significantly reorganize and refocus GECC. Under this proposal, GECC would divest or liquidate much of its commercial lending and leasing operations and all of its consumer lending businesses, including its U.S. banking operations, and shrink its total assets from approximately \$482 billion to approximately \$140 billion by year-end 2017. The divestitures are subject to a detailed plan with a definitive timeline. GECC has already begun to implement this plan, including by selling an indirect interest in its savings association and selling a significant amount of commercial real estate assets, and GECC has stated that it expects to complete its reorganization plan within three years. GECC plans to retain only those businesses directly related to GE's core industrial businesses, which it identifies as aviation, energy, and health-care. As part of this divestiture plan, GECC has indicated that it intends to seek rescission of the Council designation when appropriate.¹⁷

II. Framework for Supervision of GECC and Enhanced Prudential Standards

The Board is required to consider a variety of factors when establishing enhanced prudential standards for large bank holding companies and nonbank financial companies supervised by the Board and to adapt those standards as appropriate in light of the predominant lines of business of the companies.¹⁸ The Board is also permitted by statute to tailor application of enhanced prudential standards based on the capital

¹⁷ GE Press Release, April 10, 2014 (GE Announcement), available at: <http://www.genewsroom.com/press-releases/ge-create-simpler-more-valuable-industrial-company-selling-most-ge-capital-assets>.

¹⁸ 12 U.S.C. § 5365(b)(3).

structure, riskiness, complexity, financial activities, size, and other risk factors regarding the company as the Board deems appropriate.¹⁹

The Board has taken these factors into account, as well as information and views provided by GE and the public commenters, in establishing enhanced prudential standards for GECC. One commenter asserted that GECC differs substantially from bank holding companies and that standards for bank holding companies were inappropriate for GECC. This commenter asserted that, because GECC is a financing arm of an industrial company, its activities, objectives, and risk profile differ from those of a bank holding company. The commenter also asserted that the proposal would adversely affect financing for businesses and consumers that purchase products from GE. Several other commenters argued, on the other hand, that standards developed for bank holding companies are appropriate for GECC, and urged the Board to strengthen standards further for both bank holding companies and GECC.

As a starting point for assessing appropriate prudential standards, the Board notes that GECC engages in financial activities that are very similar to those of the largest bank holding companies. GECC's leverage, off-balance-sheet exposures, risk profile, asset composition, interconnectedness with other large financial firms, and mix of activities are substantially similar to those of many large bank holding companies. GECC is a significant participant in financing activities, including as a provider of consumer and commercial credit in the United States. As noted above, like many of the largest bank holding companies, GECC focuses its activities primarily on lending and leasing to commercial companies and on consumer financing and deposit products. GECC holds a

¹⁹ 12 U.S.C. § 5365(a)(2).

large portfolio of on-balance sheet financial assets, such as commercial and consumer loans and investment securities, that is comparable to those of the largest bank holding companies.

Moreover, GECC borrows in the wholesale funding markets by issuing commercial paper and long-term debt to wholesale counterparties, and makes significant use of derivatives to hedge interest rate risk, foreign exchange risk, and other financial risks. GECC currently controls two insured depository institutions that offer traditional banking products to both consumer and commercial customers.²⁰ Similar to the insured depository institutions of large bank holding companies, GECC's subsidiary insured depository institutions serve as a significant source of funding and as a source of credit for a portion of its lending activities.

To address the similarities in these risks, structure, and activities, and to account for the unique characteristics of GECC and its ongoing restructuring plan, the Board has determined to establish a supervisory program and framework of enhanced prudential standards for GECC that would proceed in two stages.²¹

As explained more fully below, in order to ensure that GECC has adequate capital and liquidity to support its current operations and to mitigate the risk to financial stability that might occur if GECC were to come under stress while implementing its divestiture plan, effective January 1, 2016, the final order applies capital standards applicable to bank holding companies, liquidity standards applicable to the largest bank holding

²⁰ As discussed above, GECC intends to divest Synchrony Bank and GE Capital Bank.

²¹ The final order applies to GECC and to any successor to GECC, without further action by the Board.

companies, and certain reporting requirements. These Phase I Requirements require GECC to comply with the standardized risk-based capital requirements, restrictions on distributions and certain discretionary bonus payments associated with the capital conservation buffer, the traditional balance-sheet leverage ratio requirement in the Board's regulatory capital framework, as well as with the liquidity coverage ratio rule (LCR rule) applicable to bank holding companies with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance-sheet foreign exposures (advanced approaches banking organizations), as described further below. Beginning January 1, 2016, GECC would also be required to comply with certain reporting requirements that support the risk-based capital requirements, the leverage ratio, the LCR rule, and the Board's supervision of GECC to mitigate risks to the financial stability of the United States.

GECC is currently subject to a number of statutory, regulatory, and supervisory requirements, and will continue to be subject to these requirements in addition to the Phase I Requirements. GECC is subject to examination by the Federal Reserve, the enforcement authority of the Board, resolution planning requirements, and approval requirements for expansion proposals.²² GECC is also subject to limits on concentrations that generally prohibit GECC from merging with or acquiring another company if the resulting company's liabilities upon consummation would exceed 10 percent of the aggregate liabilities of all financial companies.²³ The Board has been supervising GECC

²² See 12 U.S.C. §§ 5361(b) (establishing examination authority); 5362 (establishing enforcement authority), 5365(d) (requiring submission of a resolution plan), and 5363(b) (requiring the prior approval of the Board for certain acquisitions).

²³ See 12 CFR part 251.

pursuant to the consolidated supervision framework for large financial companies.²⁴

Finally, the final order does not preempt or otherwise alter the Board's authority to supervise GE, GECC, and GE Consumer Finance, as savings and loan holding companies under the Home Owners' Loan Act,²⁵ so long as they control a savings association.

The Board also believes that certain enhanced prudential standards should be applied in the supervision of GECC. These Phase II Requirements are more stringent than the minimum requirements applicable to bank holding companies. At the same time, the Board has tailored the enhanced standards to account for certain unique structures and risks at GECC. Moreover, in light of the reorganization plan currently underway at GECC and the amount of resources and systems necessary to implement these enhanced prudential standards, the Board has delayed the imposition of these standards until January 1, 2018.

As explained more fully below, these enhanced prudential standards include general risk management standards, enhanced capital standards, capital planning, stress testing, enhanced liquidity risk management standards, and restrictions on intercompany transactions. They also include requirements to file additional reports with the Board.

The delayed timing of the Phase II Requirements reflects the public commitment that GE and GECC have made to their divestiture and reorganization plans, progress observed to date on GECC's execution of its plans, and other changes at GE and GECC

²⁴ See Supervision and Regulation Letter SR 12-17, Consolidated Supervision Framework for Large Financial Institutions (December 17, 2012) (SR 12-17) (establishing risk-management guidance and supervisory expectations for nonbank financial companies supervised by the Board), available at: <http://www.federalreserve.gov/bankinfo/srletters/sr1217.htm>.

²⁵ 12 U.S.C. § 1467a, *et. seq.*

since issuance of the proposed order. GECC has noted that it intends to request that the Council rescind its designation in 2016.²⁶ If the designation of GECC is rescinded prior to January 1, 2018, these enhanced prudential standards would not apply to GECC. In the event that GECC is unable to complete or implement the divestiture plan as expected or if the Council does not rescind GECC's designation, the effective date of January 1, 2018, for the Phase II Requirements provides GECC with sufficient time to prepare for compliance with the requirements of the final order.

The Board expects to continue to monitor and assess GECC's activities and risk profile, and, in accordance with the requirements of section 165 of the Dodd-Frank Act, to take into account any additional factors or considerations, as necessary, in the adoption of future standards, or in tailoring of any standards imposed in the future.

A. Phase I Requirements

1. Capital Requirements

The Board has long held the view that a bank holding company generally should maintain capital that is commensurate with its risk profile and activities so that the firm can meet its obligations to creditors and other counterparties, as well as continue to serve as a financial intermediary, through periods of financial and economic stress.²⁷ Bank holding companies that are comparable in size, complexity, activities, and risk to GECC

²⁶ Letter from Keith S. Sherin, Chairman & CEO, GECC, to Robert deV. Frierson, Secretary, Board of Governors of the Federal Reserve System, May 4, 2015, available at: http://www.federalreserve.gov/SECRS/2015/May/20150506/R-1503/R-1503_050415_129930_568761743161_1.pdf.

²⁷ See 12 CFR part 217; 12 CFR 225.8; SR 12-17, supra note 24; Supervision and Regulation Letter 99-18, Assessing Capital Adequacy in Relation to Risk at Large Banking Organizations and Others with Complex Risk Profiles (July 1, 1999) (SR 99-18), available at: <http://www.federalreserve.gov/boarddocs/srletters/1999/SR9918.HTM>.

are subject to a capital framework that includes a minimum common equity tier 1 risk-based capital ratio of 4.5 percent, a minimum tier 1 risk-based capital ratio of 6 percent, a minimum total risk-based capital ratio of 8 percent, a common equity tier 1 capital conservation buffer of 2.5 percent of risk-weighted assets, a standardized methodology for calculating risk-weighted assets, and a 4 percent minimum leverage ratio of tier 1 capital to average total consolidated assets (the generally applicable leverage ratio).

Because GECC's activities and balance sheet are substantially similar to those of a large bank holding company, the Board proposed to apply the same capital framework to GECC. The final order requires GECC, beginning on January 1, 2016, to maintain the minimum risk-based capital ratios and the generally applicable leverage ratio described above, to comply with restrictions on capital distributions and certain discretionary bonus payments associated with the capital conservation buffer, and to calculate risk-weighted assets using the standardized methodology.²⁸ These regulatory capital requirements will help to ensure that GECC maintains high-quality regulatory capital in amounts commensurate with its risk as it executes its divestiture plan. Compliance with these basic capital requirements should not require substantial incremental operational investments by GECC.

2. Liquidity Requirements

On September 3, 2014, the Board adopted the LCR rule, which implements a quantitative liquidity requirement consistent with the liquidity coverage ratio (LCR) standard established by the Basel Committee on Banking Supervision.²⁹ The LCR rule is

²⁸ See 12 CFR part 217, subpart D.

²⁹ 79 FR 61440 (October 10, 2014); see 12 CFR part 249.

designed to promote the resilience of the short-term liquidity risk profile of large complex banking organizations, thereby improving the banking sector's ability to measure and manage liquidity risk and to absorb shocks arising from financial and economic stress. The LCR rule requires a company subject to the rule to maintain an amount of high-quality liquid assets (HQLA) (the numerator of the ratio) that is equal to or greater than its total expected net cash outflows over a prospective 30 calendar-day period (the denominator of the ratio).

The LCR rule does not by its terms apply automatically to nonbank financial companies supervised by the Board such as GECC. Rather, the Board indicated when it adopted the LCR rule that, following designation of a nonbank financial company for supervision by the Board, the Board would assess the business model, capital structure, and risk profile of the designated company to determine whether the LCR rule should apply to the company, and, if appropriate, would tailor application of the rule's requirements by order or regulation to that nonbank financial company or to a category of nonbank financial companies.

The Board proposed to apply to GECC the requirements in the LCR rule that apply to advanced approaches banking organizations beginning July 1, 2015. The proposed order would have adopted the same transition periods and compliance timelines for GECC as applied to advanced approaches banking organizations that have less than \$700 billion in total consolidated assets and less than \$10 trillion in assets under custody. These transition periods would have permitted GECC to conduct LCR calculations on a monthly (rather than daily) basis until July 1, 2016, and would have required GECC to maintain an LCR of at least 80 percent from July 1, 2015 to December 31, 2015, an LCR

of at least 90 percent from January 1, 2016 to December 31, 2016, and an LCR of at least 100 percent thereafter.³⁰

In comments on the proposed order, GECC requested that the Board defer the requirement to calculate its LCR daily until January 1, 2018. GECC also requested that application of the LCR rule to GECC be tailored to reflect GECC's inability to hold significant Federal Reserve Bank balances and its holding of substantial amounts of deposits at third-party banks. GECC noted that it maintains a greater proportion of its cash liquidity in third-party commercial bank deposits that are not credited as HQLA and are subject to a 75 percent cap on net inflows. GECC requested that the LCR requirements as applied to GECC count GECC's deposits in third-party commercial banks as inflows in the denominator of the LCR, consistent with the LCR that applies to bank holding companies, and that the inflows not be subject to the 75 percent cap if the third-party commercial bank or its holding company is subject to the full LCR or a foreign equivalent and the deposits are not concentrated in any one affiliated group of banks.

The final order requires GECC to comply with the LCR rule beginning January 1, 2016, to maintain an LCR of at least 90 percent from January 1, 2016 to December 31, 2016, and to maintain an LCR of at least 100 percent thereafter. The January 1, 2016, effective date for the 90 percent requirement is consistent with the proposed order and with the liquidity levels already maintained by GECC. The ability to rapidly monetize HQLA is expected to assist GECC in meeting its liquidity needs during a period of acute short-term liquidity stress and therefore both improve the firm's resiliency and reduce the

³⁰ 12 CFR 249.50(b).

likelihood of fire-sales of less liquid assets, which can damage financial stability.

Because the LCR rule applies outflow and inflow rates that are based on the particular risk profile and activities of a company subject to the rule, the LCR requirements would be appropriately tailored to GECC's activities, balance sheet, and risk profile, and would help ensure that GECC holds a sufficient amount of HQLA to meet its expected net cash outflows over a 30 calendar-day stress period.³¹

As noted above, GECC requested that the Board tailor the application of the LCR rule to reflect its inability to hold significant Federal Reserve Bank balances and its greater proportion of liquidity maintained in third-party commercial banks. Central bank reserves are not, however, the only qualifying HQLA under the LCR rule. Various high-credit-quality securities are also counted as HQLA under the LCR rule. Further, reducing the cash inflow cap and allowing GECC to rely heavily on inflows from deposits at third-party banks to offset cash outflows would increase the interconnectedness of the financial system and could reduce systemic stability. As the Board noted in the preamble to the final LCR rule,³² such deposits do not meet the Board's LCR criteria for HQLA because during a liquidity stress event many commercial banks may exhibit the same liquidity stress correlation and wrong-way risk. Further, adopting GECC's modification regarding

³¹ As indicated in the supplementary information section of the LCR rule, the Board anticipated separately seeking comment on proposed regulatory reporting requirements and instructions pertaining to the LCR. 79 FR 61440, 61445 (October 10, 2014). In December 2014, the Board proposed revisions to liquidity reporting requirements that would relate to the LCR calculation. The Board proposed these reporting requirements and instructions to apply to any nonbank financial company supervised by the Board that the Board has required by rule or order to comply with the LCR. 79 FR 71416, 71417 (December 2, 2014).

³² See 79 FR 61440, 61457 (October 10, 2014).

third-party commercial bank deposits could reduce the value of horizontal comparisons between GECC and other companies with similar balance sheets and risk profiles. The final order therefore adopts this aspect of the proposal without change.

In recognition of the infrastructure necessary for daily LCR calculations, the Board has determined to defer requiring GECC to perform daily LCR calculations until January 1, 2018. Accordingly, the final order provides that GECC may calculate its LCR monthly on each calculation date that is the last business day of the applicable calendar month until January 1, 2018.

B. Phase II Requirements

1. Risk-Management and Risk Committee Requirements

Sound enterprise-wide risk management by a large financial company reduces the likelihood of its material distress or failure and thus promotes financial stability. Section 165(b)(1)(A) of the Dodd-Frank Act requires the Board to establish enhanced risk-management requirements for nonbank financial companies supervised by the Board and bank holding companies with total consolidated assets of \$50 billion or more.³³ In addition, section 165(h) directs the Board to issue regulations requiring publicly traded nonbank financial companies and publicly traded bank holding companies with total consolidated assets of \$10 billion or more to establish risk committees.³⁴ Section 165(h) requires the risk committee to be responsible for the oversight of the enterprise-wide risk-management practices of the company, to have such number of independent directors as the Board determines appropriate, and to include at least one risk-management expert

³³ 12 U.S.C. § 5365(b)(1)(A)(iii).

³⁴ 12 U.S.C. § 5365(h); see also 12 CFR 252.2(p) (defining publicly traded).

with experience in identifying, assessing, and managing risk exposures of large, complex firms.³⁵

The Board has adopted risk-management standards in Regulation YY that require a covered bank holding company to tailor its compliance framework to the particular size, complexity, structure, risk profile, and activities of the organization. The Board has required all bank holding companies with \$50 billion or more in total consolidated assets to establish a risk committee that is an independent committee of the company's board of directors, is chaired by an independent director, and has at least one member who has experience in identifying, assessing and managing risk exposures of large, complex financial firms.³⁶ The risk committee is required to approve and periodically review the risk-management policies of the bank holding company's global operations, oversee the operation of the bank holding company's global risk-management framework, and oversee the bank holding company's compliance with the liquidity risk-management requirements of Regulation YY.³⁷ In addition, a covered bank holding company is required to appoint a chief risk officer with experience in identifying, assessing and managing risk exposures of large, complex financial firms, and who has responsibility for establishing enterprise-wide risk limits for the company and monitoring compliance with such limits.³⁸

³⁵ 12 U.S.C. § 5365(h)(3).

³⁶ 12 CFR 252.33(a)(3), (4).

³⁷ 12 CFR 252.33(a).

³⁸ 12 CFR 252.33(b).

Under Regulation YY, each covered bank holding company is required to establish a global risk-management framework that is commensurate with the company's structure, risk profile, complexity, activities, and size.³⁹ The risk-management framework is required to include policies and procedures for the establishment of risk-management governance and risk-control infrastructure of the company's global operations. In addition, the risk-management framework must include processes and systems for identifying and reporting risk-management deficiencies in an effective and timely manner, must establish managerial and employee responsibilities for risk management, must ensure the independence of the risk-management function, and must integrate risk management and associated controls with management goals and with the compensation structure for the global operations of the company.⁴⁰

The proposed order would have required GECC to adopt a risk management framework that is consistent with the supervisory expectations established for bank holding companies of a similar size beginning July 1, 2015. The proposal also included a requirement that GECC establish a dedicated risk committee at GECC that would be responsible for the oversight of GECC's risk management.

The Board noted in the proposed order that in implementing these requirements, GECC would be expected to tailor its risk-management framework to suit the company's structure. The proposed order would also have applied additional risk-management requirements that were tailored to reflect GECC's structure as an intermediate holding

³⁹ 12 CFR 252.33(a)(2).

⁴⁰ Id.

company of a larger, publicly traded company.⁴¹ To ensure that GECC's board of directors included members who were independent of GE, and whose attention was focused on the business operations and safety and soundness of GECC, the proposed order would have required that two or more of the directors of GECC be independent of GECC's management and of GE's management and board of directors. One of these directors would have been required to serve as the chair of GECC's risk committee.⁴²

In addition, consistent with Regulation YY, GECC would have been required to maintain at least one director with expertise in "identifying, assessing, and managing risk exposures of large, complex financial firms" on its risk committee.⁴³

Commenters, including GECC and the independent directors of GE, as well as several investment advisers and corporate governance associations, recognized the importance and heightened obligations of management of large financial firms for risk management and supported heightened enterprise wide risk management requirements, including a risk committee with expertise and independent leadership. GECC and the independent directors of GE pointed out that GE and GECC already have adopted several of the requirements in the Board's proposed order.

Several commenters, including GECC and the independent directors of GE, argued, however, that the proposal to require GECC to maintain at least two directors independent of GE's board of directors as well as GE and GECC management would create uncertainty about the responsibilities of those independent directors, who would be

⁴¹ Proposed Order, 79 FR at 71778.

⁴² 12 CFR 252.33(a)(4).

⁴³ Id.

expected under the Board's proposed order to focus on the risks at GECC alone, and who simultaneously would owe a fiduciary duty under Delaware law to GE as the sole shareholder of GECC. Some commenters also questioned the Board's authority under the Dodd-Frank Act to impose this requirement.⁴⁴ GECC and the independent directors of GE proposed, instead, that independent directors on the GE board be permitted to comprise the majority of GECC's board of directors. They argued that this would ensure that the majority of directors at GECC were independent of both management of GE and management of GECC. GECC and the independent directors of GE asserted that the independent directors currently offer strong oversight of GECC's risk management that is independent of the management of either GE or GECC, and are well informed about the risks to GECC, including risks posed by the interactions between GE and GECC.

After considering the public comments, including those provided by GECC and GECC's current independent directors, the Board believes that requiring a specific number of individuals to serve on the GECC board who are not also members of the GE board is unnecessary in this case for achieving the overarching supervisory interest of ensuring that GECC board members are capable of dedicating time and resources to the unique issues and risks of GECC and focusing appropriate attention on ensuring that its operations are safe and sound and consistent with financial stability. The Board understands that GE has established a dedicated risk committee that oversees the risk management of GE and GECC. In this regard, the GE independent directors have devoted a significant amount of time over the past three years to providing the type of

⁴⁴ Although GECC does not have publicly traded shares of common equity, the company has debt securities that are publicly traded on the New York Stock Exchange under section 12(b) of the Securities Exchange Act of 1934.

independent oversight contemplated by the Dodd-Frank Act and have demonstrated the willingness and ability to continue to remain fully engaged in their oversight of GECC.

Accordingly, the final order modifies the proposed risk-management requirements to require that a majority of the GECC board of directors be independent directors, unaffiliated with GE management or GECC management, with an independent director chair of the board and risk committee at GECC. This provision becomes effective on January 1, 2018. The final order does not require that the independent directors on GECC's board also be independent of the GE board.⁴⁵

The final order also requires GECC to comply with the risk committee and risk-management framework requirements in section 252.33 of the Board's Regulation YY, beginning January 1, 2018.⁴⁶ The Board believes that consistent with the designation of GECC as a nonbank financial company, GECC's risk-management framework should have a dedicated risk committee at the company that is solely responsible for the oversight of GECC's risk management. In addition, the final order requires the entire GECC risk committee to be comprised of independent directors, unaffiliated with GE management or GECC management.

The Board believes these requirements satisfy the requirements of section 165(b)(1)(A) and (h) of the Dodd-Frank Act and establish a risk management structure that can be effective in identifying, monitoring, and mitigating risks at GECC. These

⁴⁵ The Board intends to monitor the effectiveness of GECC's independent directors and if the facts and circumstances indicate that the independent directors are unable to focus their attention on the business operations and safety and soundness of GECC, then the corporate governance and risk management requirements may be revised.

⁴⁶ 12 CFR 252.33.

requirements ensure that the perspectives of qualified individuals independent of the management of GE and GECC will have a strong voice in the governance of GECC and counterbalance any tendency to operate GECC in a manner that, while advantageous to GE as the sole shareholder of GECC, may pose risks to the financial stability of the United States.

2. Capital Requirements – Additional Risk-Based and Leverage Capital Requirements

In the proposed order, the Board would have required GECC, beginning on July 1, 2015, to comply with the regulatory capital framework applicable to a large bank holding company, including the minimum common equity tier 1, tier 1, and total risk-based capital ratios, the minimum generally-applicable leverage ratio, and any restrictions on capital distributions or discretionary bonus payments associated with the capital conservation buffer, described above. In addition to the generally applicable capital adequacy requirements described above, the capital framework contains supplemental measures applicable to the largest, most interconnected bank holding companies. For advanced approaches banking organizations, these include the advanced approaches risk-based capital rule, a supplementary leverage ratio of tier 1 capital to total leverage exposure of 3 percent, a requirement to include accumulated other comprehensive income (AOCI) in tier 1 capital, and a countercyclical capital buffer. The proposed order would also have applied these requirements, except for the requirement to comply with the advanced approaches rule.⁴⁷

⁴⁷ Proposed Order, 79 FR at 71772.

In comments on the proposed order, GECC requested that the enhanced capital requirements be deferred pending completion of GE and GECC's divestiture plan. In the alternative, GECC requested that the Board allow it to exclude recognition of AOCI in regulatory capital relating to investment securities held by legacy insurance businesses that it is winding-down. GECC argued that these securities are generally held for the long term, are used to support future payment obligations on outstanding insurance contracts, and are subject to fluctuations in value that can result in volatility in AOCI.

The Board believes that the enhanced capital framework adopted for the largest bank holding companies, including the requirement to recognize most elements of AOCI in regulatory capital, is an appropriate capital framework for GECC because of the similarities in activities, size, risk, and exposures of GECC to large bank holding companies. The maintenance of a strong base of capital by GECC, which the Council has designated as systemically important, is particularly important because capital shortfalls at GECC could endanger the financial health of the firm and contribute to systemic distress. Thus, the Board believes the regulatory capital framework applicable to advanced approaches bank holding companies represents the appropriate enhanced prudential standard for GECC, with the exception noted above regarding compliance with the advanced approaches rule. The Board notes that GECC appears to meet or exceed minimum levels required in the enhanced capital framework for the largest bank holding companies. However, as explained below, the Board has deferred application of these requirements until January 1, 2018, in light of GECC's ongoing restructuring efforts.

The proposed order also would have required GECC to meet a supplementary leverage ratio of 5 percent (eSLR) in order to avoid restrictions on capital distributions

and discretionary bonus payments to executive officers.⁴⁸ The eSLR is designed to minimize leverage at banking organizations that pose substantial systemic risk, thereby strengthening the ability of such organizations to remain going concerns during times of economic stress and minimizing the likelihood that problems at these organizations would contribute to financial instability.⁴⁹

GECC asserted that subjecting GECC to the eSLR was inappropriate because GECC does not meet the size threshold for application of the eSLR and should be exempt from the eSLR just as a bank holding company of similar size and risks. In the alternative, GECC argued that the Board should tailor the ratio to GECC's smaller systemic footprint. GECC also requested that, for purposes of calculation of the eSLR and other reporting requirements, GECC be permitted to phase in the daily averaging of on-balance sheet exposures beginning on July 1, 2018. GECC suggested that a phase-in schedule would allow GECC the time to implement all of the operational infrastructure necessary to complete daily averaging.

Consistent with the Dodd-Frank Act's requirement to apply enhanced leverage requirements to nonbank financial companies supervised by the Board, the final order retains the eSLR standard for GECC, but tailors the standard to GECC's risk profile, complexity, activities, and size. Specifically, the final order requires GECC to exceed a 4 percent supplementary leverage ratio in order to avoid restrictions on capital distributions and certain discretionary bonus payments, as opposed to the 5 percent supplementary leverage ratio required for other institutions subject to the eSLR. The lower requirement

⁴⁸ 12 CFR 217.11(a)(4).

⁴⁹ See 79 FR 24528 (May 1, 2014).

in the final order is intended to reflect GECC's smaller systemic footprint compared to other banking organizations subject to the eSLR, while still minimizing leverage at GECC and reducing the likelihood that problems at GECC would cause it to fail in a manner that affects financial stability. The Board has also determined to defer application of the eSLR until January 1, 2018. Because GECC will not be required to comply with either the SLR or the eSLR prior to January 1, 2018, the Board will not require daily averaging prior to that time.

With the exception of an eSLR, the Board is not through this order applying to GECC other standards established for G-SIBs. Accordingly, the Board would not, without further action, impose the proposed G-SIB risk-based capital surcharge to GECC or otherwise define GECC as a G-SIB. As the Board adopts additional standards for G-SIBs, the Board will consider whether it is appropriate to require GECC to comply with these additional standards and would seek notice and comment prior to applying such standards to GECC. Most commenters supported this approach.

3. Capital Planning Requirements – Capital Plan Rule

The recent financial crisis highlighted a need for large bank holding companies to incorporate into their capital planning forward-looking assessments of capital adequacy under stressed conditions. The crisis also underscored the importance of strong internal capital planning practices and processes among large bank holding companies. The Board issued the capital plan rule to ensure that large bank holding companies have robust systems and processes that incorporate forward-looking projections of revenue and losses to monitor and maintain their internal capital adequacy. By helping to ensure that the largest bank holding companies have sufficient capital to withstand significant stress

and to continue to operate, the capital plan rule helps to ensure that the financial system as a whole can continue to function under stressed conditions.

The capital plan rule requires each bank holding company with \$50 billion or more in total consolidated assets to develop an annual capital plan describing its planned capital actions and demonstrating its ability to meet a 5 percent tier 1 common capital ratio and maintain capital ratios above the regulatory minimum requirements under both baseline and stressed conditions over a forward-looking planning horizon.⁵⁰ A capital plan must also include an assessment of a bank holding company's sources and expected uses of capital, reflecting the size, complexity, risk profile, and scope of operations of the company, assuming both expected and stressed conditions. In addition, each bank holding company must describe its process for assessing capital adequacy, its capital policy, and provide a discussion of any expected changes to the bank holding company's business plan that are likely to have a material impact on the company's capital adequacy or liquidity.

Under the capital plan rule, the Board annually evaluates a large bank holding company's capital adequacy and capital planning practices and the comprehensiveness of the capital plan, including the strength of the underlying analysis. The Comprehensive Capital Analysis and Review (CCAR) is the Board's supervisory process for reviewing capital plans submitted by bank holding companies under the capital plan rule. As part of CCAR, the Board conducts a quantitative assessment of each large bank holding company's capital adequacy under an assumption of stressed conditions and conducts a qualitative assessment of the company's internal capital planning practices. If the Board

⁵⁰ See 12 CFR 225.8.

objects to a bank holding company's capital plan, the company may not make any capital distribution other than those approved in writing by the Board or the appropriate Reserve Bank. A bank holding company that receives an objection may submit a revised capital plan for review by the Board.

To ensure that GECC continues to maintain sufficient capital and has internal processes for assessing its capital adequacy that appropriately account for the company's risks, the proposed order would have required GECC to comply with the Board's capital plan rule⁵¹ for the capital plan cycle beginning January 1, 2016, and to submit its first submission under the capital plan rule on April 5, 2016.

Several commenters, including GECC and a public interest group, agreed generally that the application of capital planning to GECC would be appropriate. In particular, GECC acknowledged that capital planning would be an effective tool for ensuring its capital strength and safeguarding it in its interactions with GE. GECC, however, requested that the Board defer implementation of capital planning in order to allow it sufficient time to develop necessary internal systems and to focus its capital plan compliance efforts on the business and assets it intends to retain after the divestiture plan.

The Board has determined to adopt the capital planning requirements. As described above, GECC's activities, risk profile, and balance sheet are similar to those of large bank holding companies. Requiring GECC to comply with the Board's capital plan rule as if it were a large bank holding company will help ensure that GECC holds capital that is commensurate with its risk profile and activities, can meet its obligations to

⁵¹ 12 CFR 225.8.

creditors and other counterparties, and can continue to serve as a financial intermediary through periods of financial and economic stress.⁵²

The Board recognizes that, unlike domestic bank holding companies, GECC is an intermediate holding company of a larger, publicly-traded company. However, GECC is itself a significant entity designated by the Council for supervision by the Federal Reserve because of the threat posed by the material financial distress of GECC to financial stability. Notwithstanding the recently announced guarantee of much of GECC's debt, GE is not obligated to provide capital or other financial support to GECC and, during a period of stress, may not be able to provide that support. A robust capital planning process at GECC will help ensure that GECC manages its capital, and any capital distributions to its parent, in a manner that is commensurate with its risks and consistent with its safety and soundness.⁵³ The capital plan rule acts as a counterweight to pressures that a company may face to make capital distributions during a period of economic stress, thereby helping to mitigate the risk of material financial distress at GECC.

To account for the efforts that GE and GECC are undergoing to reorganize their operations, the Board has also determined to make the capital planning requirements effective beginning January 1, 2018. The Board recognizes that GECC likely will need

⁵² See 12 CFR part 217; 12 CFR 225.8; SR 12-17, supra note 24; SR 99-18, supra note 27.

⁵³ In addition to GECC, other intermediate holding companies are subject to the capital plan rule. Notably, some U.S. bank holding company subsidiaries of foreign banking organizations participate in CCAR. In addition, under the Board's Regulation YY, all foreign banking organizations with \$50 billion or more in U.S. non-branch assets are required to form a U.S. intermediate holding company subject to the capital plan rule. See 12 CFR 252, subpart O.

time to build and implement the internal systems and infrastructure necessary fully to meet the requirements of the capital plan rule and the CCAR process. Moreover, for GECC's first capital plan cycle beginning on January 1, 2018, the quantitative assessment of GECC's capital plan under the capital plan rule will not be based on supervisory stress test estimates conducted pursuant to the Board's stress test rules.⁵⁴ Instead, the Board intends to conduct a more limited quantitative assessment of GECC's capital plan based on GECC's own stress scenario and any scenarios provided by the Board and a qualitative assessment of GECC's capital planning processes and supporting practices. This approach would be consistent with the capital plan review process that the Board used to evaluate the initial capital plan submissions of bank holding companies that were subject to the capital plan rule but that did not participate in the 2009 Supervisory Capital Assessment Program.

The Board also expects to communicate to GECC the Board's expectations on capital planning practices and capital adequacy processes in connection with its first capital plan submission. The Board intends to tailor its supervisory expectations on capital planning practices and capital adequacy processes for GECC to account for any material changes in the size, scope of activities, and risks of the company that result from the implementation of its divestiture plan.

4. Stress Testing Requirements

Section 165 of the Dodd-Frank Act requires the Board to conduct annual supervisory stress tests of each nonbank financial company supervised by the Board and requires the Board to issue regulations that require those companies to conduct company-

⁵⁴ See 12 CFR part 252, subpart E.

run stress tests semi-annually.⁵⁵ In 2012, the Board, in coordination with the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Federal Insurance Office, adopted stress testing rules under section 165(i) of the Dodd-Frank Act (stress test rules).⁵⁶ The stress test rules establish a framework for the Board to conduct annual supervisory stress tests and require covered companies to conduct semi-annual company-run stress tests.

The stress tests conducted under the Board's stress test rules are complementary to the Board's review of a company's capital plan in the CCAR process. The Board's stress test rules require the use of stylized capital action assumptions to calculate the post-stress capital ratios, while the CCAR post-stress capital ratios use the company's planned capital actions in the baseline scenario provided by the Board under the stress test rules. The capital action assumptions in the Board's stress test rules are intended to make the results of the stress tests more comparable across institutions, which enhances the quality of the required public disclosure of the stress-testing results. Under the stress test rules, covered companies are also subject to mid-cycle company-run stress tests, in which companies develop and employ their own baseline, adverse, and severely adverse scenarios in conducting internal stress tests. For both the annual and mid-cycle company-run stress tests, covered companies must disclose the results of their company-run stress test conducted under the severely adverse scenario.

The proposed order would have required GECC to comply with the stress-testing requirements applicable to bank holding companies with \$50 billion or more in total

⁵⁵ 12 U.S.C. § 5365(i).

⁵⁶ 77 FR 62378 (October 12, 2012); 12 CFR part 252, subparts E and F.

consolidated assets under the stress test rules⁵⁷ in the cycle beginning January 1, 2017. Several commenters, including GECC and a public interest group, agreed generally with the application of stress testing to GECC, asserting that it would be an important safeguard for GECC in its interactions with GE. GECC also acknowledged that stress testing would be an effective tool for ensuring its capital strength. GECC requested, however, that the Board defer implementation of stress testing requirements to January 1, 2018, in order to allow it sufficient time to develop the necessary internal systems and, ultimately, focus its stress-testing efforts on the business and assets it intends to retain after the divestiture plan.

The Board has determined to apply the stress test rules to GECC in the same manner as they currently apply to large bank holding companies because of the similarity in activities, risk profile, and balance sheet composition between GECC and large bank holding companies. Compliance with the stress testing requirements would enhance the capital planning process for GECC and regularly test the adequacy of GECC's capital against hypothetical stressed situations to ensure that its capital raising and capital distribution efforts adequately prepare the firm for potential stress environments. The stress testing requirements under the Board's stress test rules thus would enhance the resiliency of GECC and lessen the potential that its failure would have a significant adverse effect on financial stability. Because the supervisory stress tests are conducted on the basis of standardized scenarios and capital assumptions, supervisory stress testing of GECC would also allow supervisors and markets to assess GECC's capital adequacy

⁵⁷ 12 CFR part 252, subparts E and F.

compared with that of large bank holding companies that have comparable activities, risk profiles, and balance sheets.

The stress testing rules require a rigorous analysis and are dependent on accurate and detailed information regarding the composition, historical performance, and sensitivity to stress of the assets held by the company. GECC has not been subject to the stress-testing information collection requirements to date and its current divestiture efforts could have a significant impact on its ability to collect and report data that will reflect the nature of the company's activities during the nine-quarter period for the stress test. Consequently, to account for the divestiture plan and to allow GECC time to develop systems and processes for conducting stress tests and allow the Board adequate time to further assess the activities and risk profile of GECC and appropriately tailor the stress testing requirements based on GECC's systemic footprint, the Board has determined to require GECC to comply with the stress testing requirements starting with the stress testing cycle beginning January 1, 2019.

5. Liquidity Requirements

Section 165(b) of the Dodd-Frank Act directs the Board to adopt enhanced liquidity requirements for nonbank financial companies supervised by the Board as well for as bank holding companies with total consolidated assets of \$50 billion or more.⁵⁸ Liquidity is measured by a company's capacity to efficiently meet its expected and unexpected cash outflows and collateral needs at a reasonable cost without adversely affecting the daily operations or the financial condition of the company. As noted above, the financial crisis of 2008-2009 illustrated that liquidity can evaporate quickly and cause

⁵⁸ 12 U.S.C. § 5365(b)(1)(A)(ii).

severe stress at financial firms and in the financial markets, and demonstrated that even solvent financial companies may experience material financial distress if they do not manage their liquidity in a prudent manner. Through recent rulemakings and guidance, the Board has established quantitative liquidity requirements and qualitative liquidity risk-management standards in order to ensure the resiliency of financial companies during periods of financial market stress.

To complement the LCR requirements described above, the proposed order would have applied the individualized liquidity risk-management requirements established in Regulation YY to GECC beginning July 1, 2015. The liquidity risk-management requirements of Regulation YY include requirements that the board of directors of a covered bank holding company approve an acceptable level of liquidity risk that the bank holding company may assume in connection with its operating strategies (liquidity risk tolerance), receive and review information from senior management regarding the company's compliance with the established liquidity risk tolerance, and approve and periodically review liquidity risk-management strategies, policies, and procedures established by senior management.⁵⁹ Regulation YY requires senior management of a covered bank holding company to establish and implement liquidity risk-management strategies, policies, and procedures, approved by the company's board of directors; review and approve new products and business lines; and evaluate liquidity costs, benefits and risks related to new business lines and products.⁶⁰ In addition, Regulation YY requires a covered bank holding company to establish and maintain procedures for

⁵⁹ 12 CFR 252.34(a).

⁶⁰ 12 CFR 252.34(c).

monitoring collateral, legal entity exposures, and intraday liquidity risks, and requires an independent review of a covered bank holding company's liquidity risk-management processes and its liquidity stress-testing processes and assumptions.⁶¹

Regulation YY also requires covered bank holding companies to produce comprehensive cash-flow projections that project cash flows arising from assets, liabilities, and off-balance sheet exposures over short-term and long-term horizons.⁶² In addition, a covered bank holding company must establish and maintain a contingency funding plan that sets forth strategies for addressing liquidity and funding needs during liquidity stress events.⁶³

The liquidity requirements in Regulation YY are designed to complement the requirements of the LCR rule. The internal liquidity stress-test requirements in Regulation YY provide a view of an individual firm under multiple scenarios and include assumptions tailored to the idiosyncratic aspects of a firm's liquidity risk profile, while the standardized measure of liquidity adequacy under the LCR is designed to facilitate a transparent assessment of a covered bank holding company's liquidity position under a standard stress scenario and to facilitate comparisons across firms.

Finally, the Board also proposed to apply SR Letter 10-6, Interagency Policy Statement on Funding and Liquidity Risk Management (SR 10-6) to GECC, and to require compliance with the guidance outlined in that letter by July 1, 2015.⁶⁴ SR 10-6

⁶¹ 12 CFR 252.34(d), (h).

⁶² 12 CFR 252.34(e).

⁶³ 12 CFR 252.34(f).

⁶⁴ Supervision and Regulation Letter SR 10-6, Interagency Policy Statement on Funding and Liquidity Risk Management (March 17, 2010) (SR 10-6), available at:

provides guidance on sound practices for managing the funding and liquidity risks of depository institutions. The guidance also explains the expectation that institutions manage liquidity risk using processes and systems that are commensurate with the institution's complexity, risk profile, and scope of operations.

In comments on the proposed order, GECC argued that the Board should not apply intraday liquidity monitoring requirements, asserting that GECC's business mix does not result in high intraday liquidity volatility. GECC also argued that any intraday liquidity monitoring requirement should be applied only after an evaluation of whether such a requirement is necessary in light of GECC's liquidity profile and the costs required to develop and maintain such a monitoring system.

In order to promote the resilience of GECC, improve its ability to withstand financial and economic stress, and mitigate the potential adverse effects on other financial firms and markets, the Board has determined to require GECC to manage its liquidity in a manner that is comparable to a bank holding company subject to Regulation YY and SR 10-6.⁶⁵ GECC, like a large bank holding company, is primarily a lender and lessor to commercial entities and consumers, and is substantially involved in the provision of credit in the United States. Similar to large bank holding companies, GECC is also an active participant in the capital markets and relies on wholesale funding, such

<http://www.federalreserve.gov/boarddocs/srletters/2010/sr1006.htm>. SR 10-6 reiterates the process that institutions should follow to appropriately identify, measure, monitor, and control their funding and liquidity risk. In particular, the guidance re-emphasizes the importance of cash-flow projections, diversified funding sources, stress testing, a cushion of liquid assets, and a formal well-developed contingency funding plan as primary tools for measuring and managing liquidity risk.

⁶⁵ See 12 CFR 252.34, .35.

as commercial paper held by institutional investors and committed lines of credit provided by large commercial banks, exposing the company to liquidity risks.

The firm-specific liquidity risk management and stress testing requirements of Regulation YY would enhance the resilience of GECC and mitigate the potential risks to U.S. financial stability by helping to ensure that GECC develops the necessary risk management infrastructure to evaluate the liquidity risk profile of its operations on a continuing basis, including in stressed environments. The liquidity risk management and stress testing requirements of Regulation YY require each covered company to tailor its compliance framework to the particular size, complexity, structure, risk profile, and activities of the organization. Thus, in implementing these requirements, GECC would be expected to tailor its risk management framework to suit the company's liquidity risks.

Intraday monitoring is an important liquidity risk management process that is designed to address the risk that a large banking organization is unable to receive or make critical payments, which can lead to systemic disruptions. A company's procedures for monitoring and managing intraday liquidity positions should, however, reflect in stringency and complexity the scope of operations of the company. Consistent with Regulation YY, under the final order, GECC may tailor its intraday liquidity monitoring procedures to its business mix and risk.

In order to account for the effect that the divestitures proposed under the GECC reorganization plan will have on the liquidity needs and sources for GECC and the time required to establish the necessary monitoring systems, the Board has determined to defer these requirements until January 1, 2018.

6. Other Prudential Standards: Restrictions on Intercompany Transactions

Section 165(b)(1)(B) of the Dodd-Frank Act allows the Board to establish additional enhanced prudential standards for nonbank financial companies supervised by the Board and for bank holding companies with assets of \$50 billion or more.⁶⁶ The Board proposed to apply as an enhanced prudential standard certain restrictions on transactions between GECC and its affiliated entities that are not under GECC's control. In particular, the Board proposed that GECC comply with the requirements of section 23B of the Federal Reserve Act and the corresponding provisions of Regulation W (subpart F of 12 CFR part 223) in all transactions between GECC (or any of its subsidiaries) with any other affiliate, as if GECC (or any of its subsidiaries) were a "member bank" and GE (or any of its subsidiaries other than GECC and subsidiaries of GECC) were an "affiliate."⁶⁷ This requirement has the effect of requiring that all transactions between GECC (or any of its subsidiaries) and an affiliate of GECC be on market terms or, if a market does not exist for the transaction, on terms that are at least as favorable to GECC as those in a transaction between GECC and an unaffiliated third party.

GECC acknowledged that the proposed restriction on affiliate transactions was an appropriate safeguard that could protect GECC from conflicts of interest and inappropriate transfers of risk from GE to GECC. GECC requested, however, that the Board apply those requirements only on a prospective basis. GECC argued that retroactive application of these requirements to transactions that already exist between

⁶⁶ 12 U.S.C. § 5365(b)(1)(B).

⁶⁷ 12 U.S.C. § 371c-1; 12 CFR part 223, subpart F.

GECC and GE affiliates would disturb existing contractual relationships, and would be time-consuming, costly, and of limited benefit.

The application of section 23B of the Federal Reserve Act to transactions between GECC and its affiliates is designed to enhance the safety and soundness of GECC and to reduce the risk of material financial distress at GECC by ensuring that GECC is not engaging in transactions with affiliates on terms unfavorable to GECC, or in transactions that would not have been conducted, but for the affiliation between the companies. The Board believes that ensuring the long-term safe and sound operation of GECC is served by requiring all affiliate transactions to comply with the requirements of section 23B of the Federal Reserve Act and the corresponding provisions of Regulation W. While the Board recognizes that there could be costs in conforming existing arrangements to section 23B, the costs exist only to the extent that GE and its affiliates have received terms in transactions with GECC that are not at least as favorable to GECC as would be available in the marketplace. At the same time, these transactions result in GECC providing a subsidy to GE or its affiliates, thereby increasing the cost and risk to GECC. Accordingly, the Board has determined to require that certain transactions that are outstanding between GECC and any of its affiliates on January 1, 2018, be conformed to the requirements of section 23B and all transactions between GECC and its affiliates initiated on or after that date be in conformance with section 23B.

7. Future Standards

The Board continues to consider whether it would be appropriate to develop additional standards for nonbank financial companies supervised by the Board and large

bank holding companies, and if it proposes to adopt additional standards, the Board will do so in a process that allows for public participation.⁶⁸

As noted above, if the Council rescinds its determination under section 113 of the Dodd-Frank Act that GECC should be subject to supervision by the Board and enhanced prudential standards, the enhanced prudential standards imposed by the Board order will no longer apply to GECC. No further action by the Board will be necessary to terminate the order's application to GECC or any successor. So long as GE or GECC controls a savings association, they are subject to the requirements and supervisory standards applicable under the Home Owners' Loan Act, as amended.

C. Reporting Requirements

Section 161(a) of the Dodd-Frank Act authorizes the Board to require a nonbank financial company supervised by the Board, and any subsidiary thereof, to submit reports to the Board related to the financial condition of the company or subsidiary, systems of the company or subsidiary for monitoring and controlling financial, operating, and other risks, and the extent to which the activities and operations of the company or subsidiary pose a threat to the financial stability of the United States.⁶⁹ The Board may also require reports in order to monitor compliance by the company or subsidiary with the

⁶⁸ For example, the Board's initial proposed rules to implement the requirements of section 165 and 166 of the Dodd-Frank Act included single-counterparty credit limits and early remediation requirements for the companies covered under sections 165 and 166 of the Dodd-Frank Act.

⁶⁹ 12 U.S.C. § 5361(a).

requirements of Title I of the Dodd-Frank Act, which includes the enhanced prudential standards to which nonbank financial companies are subject.⁷⁰

Pursuant to this authority, the Board proposed to require GECC to file the reports identified below. Other than the FR Y-14 series reporting forms, the proposed order would have required GECC to file each of the reports identified below beginning on July 1, 2015. The Board proposed to require GECC to file the FR Y-14A on April 5, 2016, and the FR Y-14Q and Y-14M reports as of one calendar year before the as-of date of its first supervisory and company-run stress test under the Board's stress test rules. In comments on the proposed order, GECC requested that, for those subsidiaries that would be unwound or sold as part of the divestiture plan, GECC be permitted to defer the quarterly and annual reporting of standalone financial statements until the first quarter of 2018. As is discussed more fully below, the Board is adopting reporting requirements that align with the effective dates of the Phase I and Phase II Requirements to support the respective standards adopted as part of each phase.

1. Phase I Requirements

Beginning on January 1, 2016, GECC must file the following reports with the Board (in accordance with the timelines set forth in the applicable instructions to each reporting form):

- a. FR Y-6 report (Annual Report of Holding Companies);
- b. FR Y-9C report (Consolidated Financial Statements for Holding Companies)
and FR Y-9LP report (Parent Company Only Financial Statements for Large
Holding Companies);

⁷⁰ Id.

- c. FR Y-10 report (Report of Changes in Organizational Structure); and
- d. FR Y-11 report and FR Y-11S report (Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies).

GECC is already filing each of the reports listed above and must continue to file each of these reports in accordance with the timelines set forth in their respective reporting instructions for as long as GECC is supervised by the Board. The Board intends to confer with GECC on a case-by-case basis to identify any report schedules that may not be necessary for GECC to provide based on its risk profile, structure, activities, or other characteristics.⁷¹ In addition, if GECC sells, distributes, or otherwise disposes of any of its subsidiaries during the applicable reporting period for a particular form, GECC should consult with the appropriate Reserve Bank to determine whether it is necessary to submit information regarding the subsidiary.

The FR Y-6 (Annual Report of Holding Companies) is an annual information collection of financial data, an organization chart, verification of domestic branch data, and information about certain shareholders. The FR Y-9C (Consolidated Financial Statements for Holding Companies) and FR Y-9LP (Parent Company Only Financial Statements for Large Holding Companies) reports are standardized financial statements

⁷¹ GECC is currently a savings and loan holding company supervised by the Board. So long as GECC remains a registered savings and loan holding company, GECC continues to be subject to all reporting requirements applicable to a savings and loan holding company. Consistent with section 161(a)(2) of the Dodd-Frank Act, the Board intends to confer with GECC as to whether the information requested in the required reports may be available from other sources, and, to the extent any reporting requirements overlap, GECC will not be subjected to duplicative reporting requirements as both a savings and loan holding company and a nonbank financial company supervised by the Board. 12 U.S.C. § 5361(a)(2). In the event that GECC is deregistered as a savings and loan holding company by the Board, GECC would still be subject to the reporting requirements required in the final order.

and consist of consolidated data from filers. The FR Y-9LP collects basic financial data on a consolidated, parent-only basis in the form of a balance sheet, an income statement, and supporting schedules relating to investments, cash flow, and certain memoranda items. The FR Y-10 (Report of Changes in Organizational Structure) is an event-generated information collection that captures changes to a filer's regulated investments and activities. The information in this report, in conjunction with the information in the FR Y-6, will capture the legal entity structure of GECC. The FR Y-11 and FR Y-11S (Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies) reports collect financial information for individual non-functionally regulated subsidiaries on a quarterly basis. These reports consist of a balance sheet and income statement; information on changes in equity capital, changes in the allowance for loan and lease losses, off-balance-sheet items, and loans; and a memoranda section. The information collected through the FR Y-11 and FR Y-11S reports serves to identify material legal entities.

The Board expects to use the information collected through reports to monitor the financial condition and activities of GECC. This information will also be used by the Board to monitor the extent to which the activities and operations of GECC pose a threat to the financial stability of the United States and GECC's compliance with the requirements of Title I of the Dodd-Frank Act, the enhanced prudential standards that are imposed on GECC, and other relevant law. In addition, this information will be used to capture the legal entity structure of GECC and monitor progress by GECC in implementing its divestiture plan. The Board also expects to use this information to monitor intercompany transactions.

2. Phase II Requirements

Except as otherwise noted below, beginning on January 1, 2018, GECC must file the following reports with the Board (in accordance with the timelines set forth in the applicable instructions to each reporting form):

- a. FR Y-14A, FR Y-14Q, and FR Y-14M reports (Capital Assessments and Stress Testing);
- b. FR Y-15 report (Banking Organization Systemic Risk Report);
- c. FR 2314 and FR 2314S reports (Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations);
- d. FFIEC 009 report (Country Exposure Report) and FFIEC 009a report (Country Exposure Information Report); and
- e. FFIEC 102 report (Market Risk Regulatory Report for Institutions Subject to the Market Risk Capital Rule).⁷²

Submitted as part of the Board's CCAR and stress testing processes, the FR Y-14A, FR Y-14M, and FR Y-14Q (Capital Assessments and Stress Testing) reports collect detailed financial information, including quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative information on methodologies used to develop internal projections of capital across scenarios, with certain projections and information collected on a semi-annual basis.

The FR Y-14A report is an annual collection of quantitative projections of balance sheet, income, losses, and capital across a range of macroeconomic scenarios and qualitative

⁷² GECC would become subject to the FFIEC 102 report in the event the company meets the aggregate trading assets and trading liabilities threshold for application of the Board's market risk capital rule. See 12 CFR 217.201(b).

information on methodologies used to develop internal projections of capital across scenarios, with certain projections and information collected on a semi-annual basis. The FR Y-14M report is a monthly submission that comprises three loan- and portfolio-level collections of data concerning domestic residential mortgages, domestic home equity loans and home equity lines of credit, and domestic credit card loans, and one detailed address-matching collection to supplement two of the loan- and portfolio-level collections. The FR Y-14Q report is a quarterly collection of granular data on various asset classes and pre-provision net revenue for the reporting period, including information pertaining to securities, retail loans, wholesale loans, mortgage servicing rights, regulatory capital instruments, operational risk, and trading, private equity, and other fair-value assets. Collectively, the Y-14 data is used to assess the capital adequacy of filers using forward-looking projections of revenue and losses, and to support supervisory stress test models and continuous monitoring efforts. GECC is required to file its first FR Y-14A submission on April 5, 2018, as part of its capital plan. In addition, GECC is required to submit its first FR Y-14Q and Y-14M reports by December 31, 2017, which is one calendar year before the as of date of its first supervisory and company-run stress test under the Board's stress test rules. The FR Y-15 report (Banking Organization Systemic Risk Report) collects consolidated systemic risk data. The FR 2314 and FR 2314S (Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations) reports collect financial information for non-functionally regulated direct or indirect foreign subsidiaries on a quarterly or annual basis. The FR 2314 and FR 2314S reports consist of a balance sheet and income statement; information on changes in equity capital, changes in the allowance for loan and lease losses, off-

balance-sheet items, and loans; and a memoranda section. The FFIEC 009 (Country Exposure Report) and FFIEC 009a (Country Exposure Information Report) reports are quarterly information collections currently submitted for countries in which GECC has \$30 million or more in claims on residents of foreign countries. The FFIEC 009 collects detailed information on the distribution, by country, of claims on local residents held by GECC. The FFIEC 009a is a supplement to the FFIEC 009 that provides specific information about GECC's exposures to particular countries. This information may be used to analyze the extent to which GECC's credit exposures pose a threat to the financial stability of the United States.

The FFIEC 102 (Market Risk Regulatory Report for Institutions Subject to the Market Risk Capital Rule) report is designed to implement the reporting requirements for institutions that are subject to the federal banking agencies' market risk capital rule under the revised capital framework.⁷³ The reports are quarterly information collections used to assess the reasonableness and accuracy of a market risk institution's calculation of its minimum capital requirements under the market risk capital rule and to evaluate such an institution's capital in relation to its risks. Although GECC would not currently be subject to the Board's market risk capital rule because it does not meet the applicable aggregate trading assets and trading liabilities thresholds, the order requires GECC to

⁷³ See 12 CFR part 217, subpart F. The Federal Financial Institutions Examination Council (FFIEC) is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Consumer Financial Protection Bureau and to make recommendations to promote uniformity in the supervision of financial institutions.

submit the FFIEC 102 as a Phase II Requirement in order to determine whether GECC becomes subject to the Board's market risk capital rule.

The Board expects to use the information collected in these reports to assess GECC's internal assessments of its capital adequacy under a stressed scenario, and to conduct the Federal Reserve's supervisory stress tests that assess GECC's ability to withstand stress in a manner consistent with bank holding companies subject to the Board's capital plan and stress testing rules. In addition, this information will be used to support ongoing monitoring of changes in GECC's risk profile and composition. The data from the reports regarding foreign activities will be used to identify current and potential problems at the foreign subsidiaries of GECC and to monitor their activities. The information collected through these reports also will allow the Federal Reserve and GECC to monitor exposures to counterparties, the types of claim being reported, and credit derivative exposure.

III. Paperwork Reduction Act

Certain provisions of the Board's final order contain "collection of information" requirements within the meaning of the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3521). In accordance with the requirements of the PRA, the Board may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Board reviewed the final order under the authority delegated to the Board by OMB. The Board received no comments on the PRA section of the proposed order.

The final order contains reporting requirements subject to the PRA and would require GECC to submit the following reporting forms in the same manner as a bank holding company:

- 1) Country Exposure Report and Country Exposure Information Report (FFIEC 009 and FFIEC 009a; OMB No. 7100-0035);
- 2) Market Risk Regulatory Report for Institutions Subject to the Market Risk Capital Rule (FFIEC 102; OMB No. 7100-0365);
- 3) Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations; and Abbreviated Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314 and FR 2314S; OMB No. 7100-0073);
- 4) Annual Report of Holding Companies (FR Y-6; OMB No. 7100-0297);
- 5) Consolidated Financial Statements for Holding Companies (FR Y-9C; OMB No. 7100-0128);
- 6) Parent Company Only Financial Statements for Large Holding Companies (FR Y-9LP; OMB No. 7100-0128);
- 7) Report of Changes in Organizational Structure (FR Y-10; OMB No. 7100-0297);
- 8) Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies; and Abbreviated Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies (FR Y-11 and FR Y-11S; OMB No. 7100-0244);
- 9) Capital Assessments and Stress Testing (FR Y-14A, FR Y-14M, and FR Y-14Q; OMB No. 7100-0341); and
- 10) Banking Organization Systemic Risk Report (FR Y-15; OMB No. 7100-0352).

The final order contains reporting, recordkeeping, or disclosure requirements subject to the PRA and would require GECC to comply with the following information collections in the same manner as a bank holding company:

- 1) Funding and Liquidity Risk Management Guidance (FR 4198; OMB No. 7100–0326). See the Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations final rule (79 FR 17239) published on March 27, 2014.
- 2) Risk-Based Capital Standards: Advanced Capital Adequacy Framework Information Collection (FR 4200; OMB No. 7100-0313). See the Regulatory Capital Rules final rule (78 FR 62017) published on October 11, 2013, and the Regulatory Capital Rules final rule (79 FR 57725) published on September 26, 2014.
- 3) Risk-Based Capital Guidelines: Market Risk (FR 4201; OMB No. 7100–0314). See the Regulatory Capital Rules final rule (78 FR 62017) published on October 11, 2013.
- 4) Recordkeeping and Reporting Requirements Associated with Regulation Y (Capital Plans) (Reg. Y-13; OMB No. 7100-0342). See the Capital Plans final rule (76 FR 74631) published on December 1, 2011, the Supervisory and Company-Run Stress Test Requirements for Covered Companies final rule (77 FR 62377) published on October 12, 2012, and the Capital Plan and Stress Test Rules final rule (79 FR 64025) published on October 27, 2014.
- 5) Reporting and Recordkeeping Requirements Associated with Regulation WW (Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and

Monitoring) (Reg. WW; OMB No. 7100–0367). See the Liquidity Coverage Ratio final rule (79 FR 61439) published on October 10, 2014.

- 6) Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation YY (Enhanced Prudential Standards) (Reg. YY; OMB No. 7100-0350). See the Supervisory and Company-Run Stress Test Requirements for Covered Companies final rule (77 FR 62377) published on October 12, 2012, and the Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations final rule (79 FR 17239) published on March 27, 2014.

The Board has a continuing interest in the public’s opinions of collections of information. At any time, comments regarding the burden estimate, or any other aspect of this collection of information, including suggestions for reducing the burden, may be sent to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets NW, Washington, DC 20551; and to the Office of Management and Budget, Paperwork Reduction Project, Washington, DC 20503.

IV. Final Order

FEDERAL RESERVE SYSTEM

General Electric Capital Corporation
Norwalk, Connecticut

Order Imposing Enhanced Prudential Standards and Reporting Requirements

I. Background

In July 2013, the Financial Stability Oversight Council (Council) determined that material financial distress at General Electric Capital Corporation (GECC) could pose a threat to U.S. financial stability and that GECC should be subject to supervision by the Board of Governors of the Federal Reserve System (Board) and to enhanced prudential standards.¹ The Council's basis for its final determination noted GECC's interconnections with financial intermediaries through its financing activities and its funding model as well as a large portfolio of on-balance-sheet assets comparable to those of the largest U.S. bank holding companies. In particular, the Council noted GECC's significant use of wholesale funding, including short-term wholesale funding (commercial paper), and use of long-term debt and securitization debt, which could expose other large financial institutions to GECC's distress, among other reasons for its determination.²

¹ Financial Stability Oversight Council, Basis of the Financial Stability Oversight Council's Final Determination Regarding General Electric Capital Corporation, Inc. (July 8, 2013) (GECC Determination). The GECC Determination did not conclude that GECC was experiencing material financial distress. Rather, consistent with the statutory standard for determinations by the Council under section 113 of the Dodd-Frank Act, the Council determined that material financial distress at GECC, if it were to occur, could pose a threat to U.S. financial stability.

² Id., at pp. 2, 6-8.

GECC became subject to the Board's supervision immediately upon the Council's final determination.

Since July 2013, the Board's supervisory program for GECC has been based on previously published supervisory guidance for consolidated supervision of large financial institutions (SR 12-17).³ The SR 12-17 framework provides core areas of focus (capital, liquidity, governance, and recovery and resolution) and supervisory expectations that enhance the resiliency of large financial institutions and reduce the impact on the financial system and the broader economy of a large financial institution's failure or material financial distress. Consistent with the SR 12-17 framework, the supervision of GECC has focused on capital and liquidity planning and positions, corporate governance, recovery planning, and resolution planning. The Board also maintains a GECC-dedicated supervisory team that regularly meets with senior management and the boards of directors of General Electric Company (GE) and GECC, reviews management information systems, and engages in a broad range of continuous monitoring efforts.

In April 2015, GE and GECC announced plans to sell or otherwise distribute much of GECC's commercial lending and leasing operations and all of its consumer lending businesses, including the entirety of its U.S. depository institution operations. GECC plans to retain only those businesses directly related to GE's core industrial businesses.⁴ The divestitures are subject to a detailed plan with a definitive timeline. GECC has begun executing the plan and has made demonstrable progress. GE also announced an intent to further reduce GECC's

³ See Supervision and Regulation Letter 12-17, Consolidated Supervision Framework for Large Financial Institutions (December 12, 2012) (SR 12-17), available at: <http://www.federalreserve.gov/bankinfo/srletters/sr1217.htm>.

⁴ GE Press Release, April 10, 2014 (GE Announcement), available at: <http://www.genewsroom.com/press-releases/ge-create-simpler-more-valuable-industrial-company-selling-most-ge-capital-assets>.

use of commercial paper to \$5 billion by the end of 2015 and amended its income maintenance agreement with GECC to guarantee all tradable senior and subordinated debt securities and all commercial paper issued or guaranteed by GECC.⁵ The Board is closely monitoring the asset sales and other proposed changes under the divestiture and reorganization plans and any impact they may have on GECC's systemic footprint and the Board's supervision of GECC and its subsidiaries.

Related to the divestiture plan and other announced changes, GECC has indicated that it will seek rescission of the Council's designation in 2016. In light of the reorganization plan currently underway at GECC and the amount of resources and systems necessary to implement enhanced prudential standards, the Board is implementing the enhanced prudential standards in two phases – Phase I and Phase II.

In Phase I, beginning January 1, 2016, in order to ensure that GECC has adequate capital and liquidity to support its current operations and mitigate the risk to financial stability that may occur if GECC were to experience material financial distress while implementing its divestiture plan, GECC shall comply with certain capital, liquidity, and reporting standards (Phase I Requirements). The Phase I Requirements require GECC to comply with the standardized risk-based capital requirements and the balance-sheet leverage requirement in the Board's regulatory capital framework, as described further below, as well as with the liquidity coverage ratio rule (LCR rule) applicable to bank holding companies with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance-sheet foreign exposures (advanced approaches banking organizations). GECC is also required to file certain reports that support the Phase I Requirements and the Board's supervision of GECC.

⁵ Id.

In Phase II, beginning January 1, 2018, GECC shall comply with certain additional standards, including risk management, capital, capital planning, stress testing, liquidity risk management, and restrictions on intercompany transactions (Phase II Requirements). GECC is required to file certain additional reports with the Board, generally beginning January 1, 2018, that support the Phase II requirements.

II. Enhanced prudential standards

a. Phase I Requirements

GECC shall comply with the following requirements beginning January 1, 2016.

Capital

To ensure that GECC continues to maintain sufficient capital and has internal processes for assessing its capital adequacy that appropriately account for the company's risks, GECC shall comply with the Board's capital framework, set forth in 12 CFR part 217 (Regulation Q), including the deductions required under 12 CFR 248.12, as applicable, as if GECC were a bank holding company that calculates risk-weighted assets solely under the standardized approach (subpart D to 12 CFR part 217), including the leverage ratio in 12 CFR 217.10(b)(4).

At this time, GECC's activities, risk profile, and balance sheet are similar to those of large bank holding companies supervised by the Board. Accordingly, requiring GECC to comply with the Board's Regulation Q will help ensure that GECC holds capital that is commensurate with its risk profile and activities, can meet its obligations to creditors and other counterparties, can continue to serve as a financial intermediary through periods of financial and economic stress, and meets capital standards that help prevent or mitigate the risk to U.S. financial stability that could arise from the material financial distress or failure of GECC.

Liquidity

To ensure that GECC maintains sufficient liquidity to absorb shocks it may experience under stress, GECC shall comply with the LCR rule, set forth in 12 CFR part 249, as a covered nonbank company (as that term is defined in 12 CFR 249.3), pursuant to 12 CFR 249.1(b)(1)(iv) and 12 CFR 249.3, subject to the transition periods set forth under 12 CFR 249.50(b). GECC shall calculate and maintain an LCR of at least 90 percent from January 1, 2016, to December 31, 2016, and calculate and maintain an LCR of at least 100 percent thereafter. Until January 1, 2018, GECC may calculate its LCR monthly on each calculation date that is the last business day of the applicable calendar month, after which time it must calculate its LCR daily.⁶

The application of the LCR rule to GECC will help promote the resilience of the short-term liquidity risk profile of GECC, thereby improving its ability to measure and manage liquidity risk and to absorb shocks arising from financial and economic stress. Because the LCR rule applies cash outflow and inflow rates that are based on the particular risk profile and activities of companies like GECC, the LCR requirements are tailored to and appropriate for GECC's activities, balance sheet, and risk profile. The application of the LCR rule will help ensure that GECC holds a sufficient amount of high-quality liquid assets based on its activities to meet its net cash outflows over a 30-calendar-day stress period.

b. Phase II Requirements

GECC shall comply with the following requirements beginning January 1, 2018, except as may be otherwise noted below.

Risk-Management and Risk-Committee Standards

⁶ See 12 CFR part 249.

To reduce the likelihood of GECC experiencing material financial distress and to promote financial stability, beginning January 1, 2018, GECC shall comply with the risk-committee and risk-management standards under section 252.33 of the Board's Regulation YY as though it were a bank holding company with \$50 billion or more in total consolidated assets.⁷ In addition, beginning January 1, 2018, GECC shall comply with the following additional risk-management standards: (1) GECC must maintain a board of directors with a majority of directors who do not hold management positions at either GE or GECC (independent directors); (2) the chair of GECC's board of directors must be an independent director; and (3) all members of the risk committee of the GECC board of directors, established pursuant to Regulation YY, must be independent directors. The risk-management standards in Regulation YY require a company subject to its provisions to implement a risk-management framework that is commensurate with the company's capital structure, risk profile, complexity, activities, size, and other appropriate risk-related factors, and GECC is expected to tailor its risk-management framework accordingly.

Application of the risk-management standards in Regulation YY and the risk-management guidance and supervisory expectations for nonbank financial companies supervised by the Board⁸ will strengthen GECC's ability to prevent and respond to material distress or failure and promote financial stability. The additional measures related to GECC's board of directors and risk committee will help ensure that GECC's independent directors are able to focus appropriate attention on the unique businesses and complexities of GECC, that GECC's operations are safe and sound, and that perspectives of qualified individuals

⁷ 12 CFR 252.33.

⁸ See SR 12-17, supra note 3.

independent of the management of GE and GECC have a strong voice in the governance of GECC.

Risk-Based and Leverage Capital

Beginning January 1, 2018, GECC shall comply with the Board's capital framework, set forth in Regulation Q, including the deductions required under 12 CFR 248.12, as applicable, as if GECC were a bank holding company that is an advanced approaches Board-regulated institution and a covered BHC (as each term is defined under 12 CFR 217.2); provided, however, that notwithstanding 12 CFR 217.100(b), GECC is not required to comply with subpart E of 12 CFR part 217 or to calculate an advanced measure for market risk under 12 CFR 217.204.⁹ To strengthen GECC's ability to remain a going concern during times of stress and to minimize the likelihood that distress at GECC would contribute to financial instability, GECC shall maintain a supplementary leverage ratio in excess of 4 percent (eSLR) in order to avoid restrictions on capital distributions and discretionary bonus payments to executive officers.¹⁰

The enhanced capital framework adopted for advanced approaches bank holding companies, including the requirement to recognize most elements of accumulated other comprehensive income in regulatory capital, is an appropriate capital framework for GECC because of the similarities in its activities, size, risk, and exposures to those of large bank holding companies. The 4 percent eSLR is intended to reflect GECC's smaller systemic footprint compared to other banking organizations subject to a 5 percent eSLR, while still minimizing leverage at GECC and reducing the likelihood that problems at GECC would cause it to fail in a manner that affects financial stability. The maintenance of a strong base of

⁹ Pursuant to Regulation Q, GECC's computation of capital shall take into account any off-balance-sheet activities of the company. See 12 CFR 217.10 and 217.33; see also 12 U.S.C. § 5365(k).

¹⁰ 12 CFR 217.11(a)(2)(v).

capital by GECC is particularly important because a capital shortfall has the potential to result in significant adverse economic consequences and to contribute to systemic distress.

Capital Planning

For the capital plan cycle beginning January 1, 2018, GECC shall comply with the capital plan rule set forth in 12 CFR 225.8 (capital plan rule) as a nonbank financial company supervised by the Board (as that term is defined in 12 CFR 225.8(d)(9)), pursuant to 12 CFR 225.8(b)(1)(iv).

The recent financial crisis highlighted a need for certain financial institutions, such as GECC, to incorporate into their capital planning forward-looking assessments of capital adequacy under stressed conditions. The capital plan rule will help ensure that GECC has robust systems and processes that incorporate forward-looking projections of revenue and losses to monitor and maintain its internal capital adequacy.

The capital plan rule requires GECC to submit an annual capital plan to the Board describing its planned capital actions and demonstrating its ability to meet a 5 percent tier 1 common capital ratio and to maintain capital ratios above the Board's minimum regulatory capital requirements under both baseline and stressed conditions over a forward-looking planning horizon.¹¹ GECC's capital plan must include an assessment of the company's sources and expected uses of capital that reflects the size, complexity, risk profile, and scope of operations, assuming both expected and stressed conditions. In addition, GECC must describe its process for assessing capital adequacy and its capital policy and must provide a discussion of any expected changes to the company's business plan that are likely to have a material impact on its capital adequacy.

¹¹ See 12 CFR 225.8.

Under the capital plan rule, the Board will annually evaluate GECC's capital adequacy and capital planning practices and the comprehensiveness of the capital plan, including the strength of the underlying analysis. The Comprehensive Capital Analysis and Review (CCAR) is the Board's supervisory process for reviewing capital plans submitted by companies under the capital plan rule. As part of CCAR, the Board conducts a quantitative assessment of each company's capital adequacy under an assumption of stressed conditions and conducts a qualitative assessment of the company's internal capital planning practices, each of which can provide a basis on which the Board may object to a company's capital plan.

The Federal Reserve conducts its quantitative assessment of a company's capital plan based on the supervisory stress test conducted under the Board's rules implementing the stress tests required under the Dodd-Frank Act combined with the company's planned capital actions under the baseline scenario. This assessment will help determine whether GECC would be capable of meeting supervisory expectations for its regulatory capital ratios even if stressed conditions emerge and the company does not reduce planned capital distributions. The Board will evaluate GECC's risk-identification, risk-measurement, and risk-management practices supporting the capital planning process, including estimation practices used to produce stressed loss, revenue, and capital ratios, as well as the governance and controls around these practices. In reviewing GECC's capital plan, the Board will consider the comprehensiveness of the capital plan, the reasonableness of the company's assumptions and analysis underlying the capital plan, and the company's methodologies for reviewing the robustness of its capital adequacy process.

Stress Testing

To ensure that GECC develops the necessary systems and processes to evaluate its capital adequacy on an ongoing basis, starting with the stress testing cycle beginning on January 1, 2019, GECC shall comply with the stress testing

requirements set forth in subparts E and F of Regulation YY (12 CFR part 252, subparts E and F) (together, the stress test rules) as a nonbank financial company supervised by the Board (as that term is defined in 12 CFR 252.42(i) and 252.52(j), respectively), pursuant to 12 CFR 252.43(a)(1)(iii) and 12 CFR 252.53(a)(1)(iii).

The Board is applying its stress test rules to GECC in the same manner that it applies them to large bank holding companies due to the similarity in activities, risk profiles, and balance sheets between GECC and large bank holding companies. Moreover, because the Board's supervisory stress tests are conducted on the basis of standardized scenarios and capital assumptions, application of the Board's stress test rules to GECC allows the Board to compare GECC's capital adequacy against that of large bank holding companies that have comparable activities, risk profiles, and balance sheets. The stress tests conducted under the Board's stress test rules are complementary to the Board's review of GECC's capital plan in CCAR.

Liquidity

Beginning January 1, 2018, GECC shall comply with the liquidity requirements, set forth in sections 252.34 and 252.35 of the Board's Regulation YY,¹² as though it were a bank holding company with \$50 billion or more in total consolidated assets. GECC shall also comply with the Board's supervisory guidance on funding and liquidity risk management (SR 10-6).¹³ The liquidity risk management and stress testing requirements of Regulation YY complement the LCR requirements and require a company subject to its provisions to tailor

¹² 12 CFR 252.34 and 252.35.

¹³ Board of Governors of the Federal Reserve System, Division of Banking Supervision and Regulation (2010), "Interagency Policy Statement on Funding and Liquidity Risk Management," Supervision and Regulation Letter SR 10-6 (March 17, 2010); 75 Fed. Reg. 13656 (March 22, 2010); available at: <http://www.federalreserve.gov/boarddocs/srletters/2010/sr1006.pdf>.

compliance to the company's size, complexity, structure, risk profile, and activities. In complying with Regulation YY, GECC is expected to tailor its liquidity risk-management framework to suit the organization's structure. Additionally, as discussed above, GECC will be required to calculate its LCR daily beginning January 1, 2018.

GECC, like a large bank holding company, is primarily a lender and lessor to commercial entities and consumers and is substantially involved in the provision of credit in the United States. Similar to large bank holding companies, GECC is also an active participant in the capital markets and relies on wholesale funding, such as commercial paper, exposing the company to liquidity risks. The Board is requiring GECC to manage its liquidity in a manner that is comparable to a bank holding company subject to the LCR rule, Regulation YY, and SR 10-6 to ensure that GECC has sufficient liquidity to meet outflows during a period of significant financial stress, to improve its ability to withstand financial and economic stress, and to mitigate the potential adverse effects on other financial firms and markets.¹⁴

Restrictions on Intercompany Transactions

Beginning January 1, 2018, GECC shall comply with the requirements of section 23B of the Federal Reserve Act and the corresponding provisions of Regulation W (12 CFR part 223, subpart F)¹⁵ as if GECC (or any of its subsidiaries) were a member bank and GE (or any of its subsidiaries other than GECC and subsidiaries of GECC) were an affiliate (as each term is defined in section 23B of the Federal Reserve Act and Regulation W) for all transactions:

¹⁴ See 12 CFR 252.34 and 252.35.

¹⁵ 12 U.S.C. § 371c-1; 12 CFR part 223, subpart F.

1. Described in 12 U.S.C. § 371c(b)(7)(A) or (E) that existed prior to January 1, 2018, and remain outstanding on or after January 1, 2018; and
2. Described in 12 U.S.C. § 371c-1(a)(2) that occur on or after January 1, 2018.

This standard does not apply to any transaction between GECC and any person unaffiliated with GECC involving proceeds that are used for the benefit of, or transferred to, an affiliate of GECC, which would otherwise be a covered transaction under section 23A(a)(2) of the Federal Reserve Act and section 223.16 of Regulation W.¹⁶

Future Standards

Nothing in this order limits the Board's authority to impose additional enhanced prudential standards on GECC in the future. The Board reserves the right to modify or supplement these standards, if appropriate, to ensure the safe and sound operation of GECC or to promote financial stability.

c. Reporting¹⁷

Phase I Requirements

Beginning on January 1, 2016, GECC shall file the following reports with the Board (in accordance with the timelines set forth in the applicable instructions to each reporting form):

- a. FR Y-6 report (Annual Report of Holding Companies);
- b. FR Y-9C report (Consolidated Financial Statements for Holding Companies) and FR Y-9LP report (Parent Company Only Financial Statements for Large Holding Companies);
- c. FR Y-10 report (Report of Changes in Organizational Structure); and

¹⁶ 12 U.S.C. § 371c(a)(2); 12 CFR 223.16.

¹⁷ Reporting requirements are adopted pursuant to section 161(a) of the Dodd-Frank Act. 12 U.S.C. § 5361(a).

- d. FR Y-11 and FR Y-11S reports (Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies).

Phase II Requirements

Except as otherwise noted below, beginning on January 1, 2018, GECC shall file the following reports with the Board (in accordance with the timelines set forth in the applicable instructions to each reporting form):

- a. FR Y-14A, FR Y-14Q, and FR Y-14M reports (Capital Assessments and Stress Testing);
- b. FR Y-15 report (Banking Organization Systemic Risk Report);
- c. FR 2314 and FR 2314S reports (Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations);
- d. FFIEC 009 report (Country Exposure Report) and FFIEC 009a report (Country Exposure Information Report); and
- e. FFIEC 102 report (Market Risk Regulatory Report for Institutions Subject to the Market Risk Capital Rule).¹⁸

The FR Y-14Q and Y-14M reports support the stress testing standard and must be filed by December 31, 2017. Likewise the FR Y-14A report supports capital planning and must be filed by April 5, 2018, as part of the capital plan.

The Board intends to confer with GECC to determine whether GECC should modify any reporting schedules that may not be necessary for GECC to provide, based on its profile, structure, activities, risks, or other characteristics. In addition, if GECC sells, distributes, or otherwise disposes of any of its subsidiaries during the applicable reporting period for a particular form, GECC should consult with the Reserve Bank to determine whether it is necessary to submit information regarding the subsidiary.

¹⁸ GECC shall become subject to the FFIEC 102 report in the event the company meets the aggregate trading assets and trading liabilities threshold for application of the Board's market risk capital rule. See 12 CFR 217.201(b).

III. Other requirements

GECC remains subject to a number of other statutory and regulatory requirements and the Board's existing supervisory framework, notwithstanding the application of enhanced prudential standards implemented through this order pursuant to section 165 of the Dodd-Frank Act. Nothing in this order limits the applicability of those requirements, rules, and authorities. These other requirements include, but are not limited to, the following matters:

Examinations

Pursuant to section 161(b) of the Dodd-Frank Act, the Board has examination authority over nonbank financial companies supervised by the Board, including GECC.¹⁹ This examination authority is to inform the Board of (A) the nature of the operations and financial condition of the company and its subsidiaries; (B) the financial, operational, and other risks of the company and its subsidiaries that may pose a threat to the safety and soundness of the company or its subsidiaries or to the financial stability of the United States; (C) the systems for monitoring and controlling such risk; and (D) compliance by the company or its subsidiaries with Title I of the Dodd-Frank Act.

Resolution Planning

Pursuant to section 165(d) of the Dodd-Frank Act, all nonbank financial companies supervised by the Board shall report periodically to the Board the plan of such company for rapid and orderly resolution in the event of material financial distress or failure (Resolution Plan).²⁰ As a nonbank financial company supervised by the Board, GECC is required to submit a Resolution Plan for review by the Board and the Federal Deposit Insurance

¹⁹ 12 U.S.C. § 5361(b).

²⁰ 12 U.S.C. § 5365(d). See 12 CFR part 243.

Corporation (FDIC).²¹ The Resolution Plan must describe GECC's strategy for rapid and orderly resolution under the U.S. bankruptcy code in the event of material financial distress or failure of the company.

Single-Counterparty Credit Limits

Pursuant to section 165(e) of the Dodd-Frank Act, the Board has proposed standards that limit single-counterparty credit exposure.²² The Board continues to develop single-counterparty credit limits and will in the future prescribe limits that may apply to GECC.

²¹ GECC was required to submit its initial Resolution Plan to the Board by July 1, 2014, and did so. GECC must file subsequent Resolution Plan submissions by December 31 of each year. The Board anticipates providing feedback and guidance to GECC prior to the submission of its next Resolution Plan.

²² 12 U.S.C. § 5365(e). See 77 FR 594, 612 (January 5, 2012) (proposing single-counterparty credit limits pursuant to section 165(e) of the Dodd-Frank Act); 79 FR 17240, 17243 (March 27, 2014) (indicating that the Board continues to study and develop single-counterparty credit limits). The Board has previously indicated that it will coordinate development of credit exposure reports pursuant to section 165(d)(2) of the Dodd-Frank Act, 12 U.S.C. § 5365(d)(2), with the single-counterparty credit exposure limits. See 76 FR 67323, 67327 (November 1, 2011).

Acquisitions of Financial Companies

Pursuant to section 163(b) of the Dodd-Frank Act, nonbank financial companies supervised by the Board, including GECC, shall not acquire direct or indirect ownership or control of any voting shares of any company (other than an insured depository institution) that is engaged in activities described in section 4(k) of the BHC Act having total consolidated assets of \$10 billion or more without providing prior written notice to the Board.²³

Concentration Limits on Large Financial Companies

Pursuant to section 622 of the Dodd-Frank Act (which amended the Bank Holding Company Act of 1956 (BHC Act) to add a new section 14), GECC is prohibited from merging or consolidating with, or acquiring, another company if the resulting company's liabilities upon consummation would exceed 10 percent of the aggregate liabilities of all financial companies.²⁴

Supervisory Letter SR 12-17 (Consolidated Supervision Framework for Large Financial Institutions)

GECC remains subject to the Board's risk-management guidance and supervisory expectations for nonbank financial companies, which include expectations concerning capital and liquidity planning, corporate governance, recovery planning, management of core business lines, and resolution planning.²⁵

IV. Applicability

All references to GECC in this order include any successor to GECC, and if GECC is succeeded by or replaced with another company

²³ 12 U.S.C. § 5363(b). Pursuant to section 163(b)(2) of the Dodd-Frank Act, the prior-notice requirement does not apply to the acquisition of shares that would qualify for the exemptions in section 4(c) or section 4(k)(4)(E) of the BHC Act. See 12 U.S.C. § 5363(b)(2).

²⁴ See 12 U.S.C. § 1852; see also 12 CFR part 251 (the Board's regulation implementing section 622 of the Dodd-Frank Act and section 14 of the BHC Act).

²⁵ SR 12-17, supra note 3.

controlled by GE this order shall apply to that company. No further action by the Board will be necessary to apply these enhanced prudential standards or any of the Board's other statutory authorities and powers related to the Board's supervision of GECC to that company.

If the Council rescinds its determination under section 113 of the Dodd-Frank Act that GECC should be subject to supervision by the Board and to enhanced prudential standards, this order shall no longer apply to GECC. No further action by the Board will be necessary to terminate the order's application to GECC (or any successor).

By order of the Board of Governors of the Federal Reserve System,²⁶ effective July __, 2015.

Robert deV. Frierson
Secretary of the Board

By order of the Board of Governors of the Federal Reserve System, July 20, 2015.

Robert deV. Frierson,
Secretary of the Board.

BILLING CODE: 6210 01P

[FR Doc. 2015-18124 Filed: 7/23/2015 08:45 am; Publication Date: 7/24/2015]

²⁶ Voting for the action: [].